Docket No. 05-35264

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

RANCHERS CATTLEMEN ACTION LEGAL FUND UNITED STOCKGROWERS OF AMERICA,

Plaintiff-Appellee,

v.

UNITED STATES DEPARTMENT OF AGRICULTURE, Animal and Plant Health Inspection Service; et al.,

Defendants-Appellants.

Appeal from
D.C. No. CV-05-00006-RFC
District of Montana,
Billings

BRIEF OF AMICUS CURIAE EASTERDAY RANCHES, INC. IN SUPPORT OF REVERSAL OF THE ORDER OF THE DISTRICT COURT GRANTING A PRELIMINARY INJUNCTION

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CORPORATE DISCLOSURE STATEMENT

Pursuant to Fed. R. App. P. 26.1, Amicus Curiae Easterday Ranches, Inc. states that it has no parent corporation, and no publicly-held corporation owns 10 percent or more of the stock of Easterday Ranches, Inc.

I. IDENTITY OF AMICUS CURIAE

Amicus Curiae Easterday Ranches, Inc. (Easterday Ranches) is a family-owned business that operates an 18,000 head cattle feedlot in the Columbia Basin of eastern Washington, marketing approximately 36,000 head of finished cattle annually for slaughter. It operates in conjunction with the family-owned row crop farm, Easterday Farms, which has been operating for three generations over 45 years. Together, these two operations employ full-time approximately 85 persons, with an annual payroll of $2,500,000 and annual gross revenue of $45,000,000.

Easterday Ranches has a direct and substantial interest in this appeal. A significant source of cattle for Easterday Ranches' feedlot historically has been Canadian feeder cattle.[1] More immediately, when the U.S. Department of Agriculture (USDA) announced that the border would re-open on March 7, 2005, Easterday Ranches purchased 4,367 head of Canadian cattle. However, the preliminary injunction prevents it from bringing these cattle across the

[1] "Fed cattle," also called "live cattle" or "fat cattle," are steers and heifers that are ready for slaughter. Typically, they have been fed high-energy, low-fiber rations (concentrates) for 3 or 4 months in a feedlot. Fed cattle from Canadian feedlots are imported, often by the packer, and brought directly to the packing facility. "Feeder" cattle are cattle that need further feeding prior to slaughter. They are imported and placed in feedlots, where they are fed rations until they are ready for slaughter.

border to its Washington feedlot, already causing Easterday Ranches to suffer economic hardship.

The source of authority to file this amicus brief is by leave of the court, which is requested by the accompanying Motion for Leave to File Amicus Brief.

II. ARGUMENT

A. AN EXPEDITIOUS RULING IS URGENTLY NEEDED

The urgency of the Court's expeditious ruling on this appeal bears emphasis. Under the case schedule established by the district court, cross motions for summary judgment will be briefed and heard over the next two months. Unless this Court acts beforehand, it is likely that – barring a major turnaround in the district court's views – a permanent injunction will issue. The preliminary injunction that is the subject of this appeal would be merged in the permanent injunction, rendering this appeal moot. *In re Estate of Ferdinand Marcos Human Rights Litigation*, 94 F.3d 539, 544 (9th Cir. 1996). In that event, the border might remain closed for months before this Court would have an opportunity to provide the district court with the necessary guidance on the law that should apply.

As this amicus brief discusses below, the continued closure of the border to the importation of safe Canadian cattle is causing substantial economic harm

to most of the cattle industry in the United States – particularly in the Pacific Northwest. The potential for long-term structural damage to the domestic industry is real. Easterday Ranches asks this Court to rule in this appeal in time to allow the district court to have the benefit of an appellate decision.

B. THIS CASE IS ABOUT TRADE, NOT FOOD SAFETY

The Animal Health Protection Act authorizes the Secretary of Agriculture to prohibit or restrict –

> – the importation or entry of any animal ... if the Secretary determines that the prohibition or restriction is necessary to prevent the introduction into or dissemination within the United States of any pest or disease of livestock ....

7 U.S.C. § 8303(a)(1).

On May 20, 2003, the Secretary, under the authority of this statute, ordered the border closed to the importation of Canadian fed cattle and feeder cattle. 68 Fed. Reg. 31,939 (May 29, 2003). The USDA engaged in a comprehensive evaluation and identification of scientifically-sound measures that would be effective in preventing the introduction or dissemination of bovine spongiform encephalopathy (BSE) within the United States. On November 4, 2003, the USDA identified such measures in a proposed rule. 68 Fed. Reg. 62,386 (Nov. 4, 2003). Fourteen months later, after receiving and evaluating considerable public comment, the USDA promulgated a Final Rule.

70 Fed. Reg. 460 (Jan. 4, 2005). The Final Rule was based on a scientifically-sound assessment of the risk of BSE spreading to the United States under the control measures required under the Final Rule. 70 Fed. Reg. 460, at 466-67.

In addition, the Final Rule was issued only after the USDA evaluated the economic impacts on the livestock industry in the United States. The USDA evaluated the economic impacts throughout the industry, including cow-calf producers, feeders, packers and others. It concluded that different sectors and different geographic regions would be affected differently – with both positive and negative effects. The net economic result impacts of the Final Rule on the domestic livestock industry were found to be positive. 70 Fed. Reg. 460, at 539. As discussed below, these economic effects largely are the result of partially restoring the economic status quo that existed prior to May 20, 2003.

Given the considerable discretion vested in the Secretary in developing regulations under the Animal Health Protection Act, and the vast administrative record supporting the Final Rule, it is unlikely that R-CALF will succeed on the merits of its claim.[2] Furthermore, R-CALF has not shown that it will suffer

[2] Easterday Ranches agrees with the Government's well-reasoned arguments concerning both the Secretary's discretion under the statute in question, as well as the adequacy of the record to support the Secretary's decision to open the border to the importation of safe Canadian cattle. Easterday Ranches will not separately brief these points, as to do so would merely be redundant.

hardship from the Final Rule. Therefore, it was not entitled to the issuance of a preliminary injunction.

Say what they will, R-CALF brought this litigation not out of concern for food safety, but as part of its continuing campaign to protect its members against competition by Canadian cattle producers. As the Government points out in its opening brief, R-CALF's self-described mission "is to represent the U.S. cattle industry in national and international trade and marketing issues to ensure the continued profitability and viability of U.S. independent cattle producers." Brief for Appellants, p. 47, citing The Official R-CALF USA Website, http://r-calfusa.com/.

R-CALF advances the interests of its members, who, for the most part, are cow-calf producers. It does not advance the interests of other segments of the U.S. cattle industry – including feedlot operators such as Easterday Ranches. As the president of R-CALF said on National Public Radio's *All Things Considered*: "... [W]e formed R-CALF just for US cattle producers. And it's now the largest cattle organization in the United States that represents only US cattle producers. And that's the key word, 'only.'" *All Things Considered: US cattle industry split between those who want trade reopened*

with Canada and those who believe Canadian beef still poses the risk of mad cow disease (NPR radio broadcast, Mar. 15, 2005).[3]

As the USDA's economic analysis of the final rule shows, opening the border to the importation of Canadian cattle under 30 months provides a net economic benefit to the United States. USDA, Economic Analysis, Final Rule, Bovine Spongiform Encephalopathy: Minimal Risk Regions and Importation of Commodities, pp. 38 – 43 (APHIS Docket No. 03-080-3) (Dec. 20, 2004).

R-CALF's campaign against the importation of Canadian cattle began long before the May 2003 detection of BSE in a Canadian cow. In fact, R-CALF was born 7 years ago as an advocate for trade restrictions. On November 12, 1998, R-CALF filed petitions with the U.S. International Trade Commission and the U.S. Department of Commerce, claiming that live cattle imports from

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[3] This statement is outside of the record considered by the district court, as are some other sources relied upon in this brief. Easterday Ranches recognizes that this material is no substitute for the record. However, materials outside the record may be particularly helpful to the Court's understanding of the economics of the cattle industry. Courts have relied upon such outside-the-record material at least since Louis D. Brandeis presented the first so-called "Brandeis brief" in *Muller v. State of Oregon*, 208 U.S. 412, 419, 28 S.Ct. 324, 52 L.Ed. 551 (1908) ("Then follow extracts from over ninety reports of committees, bureaus of statistics, commissioners of hygiene, inspectors of factories, both in this country and in Europe, to the effect that long hours of labor are dangerous for women, primarily because of their special physical organization.").

Canada were being subsidized. These petitions were not successful, and eventually R-CALF abandoned its appeals.

Ironically, R-CALF members themselves buy and sell Canadian cattle in Canada. The president of R-CALF is reported as saying there is no contradiction in engaging in this business, and at the same time opposing the importation of Canadian cattle to the United States. *R-CALF bought, sold beef in Canada*, http://www.billingsgazette.com/ (Mar. 9, 2005). If, in fact, R-CALF believes that Canadian cattle present a food safety threat, this reaction would display an alarming disregard for public health. It is, however, consistent with R-CALF's true interests, which are purely economic and protectionist. In the NPR broadcast, the president of R-CALF acknowledges that the real issue is trade: "It's obvious that it's a trade issue, so it is about trade." *All Things Considered: US cattle industry split between those who want trade reopened with Canada and those who believe Canadian beef still poses the risk of mad cow disease* (NPR radio broadcast, Mar. 15, 2005).

C. R-CALF IS NOT ENTITLED TO CONTINUE RECEIVING PROFITEERING BENEFITS

Placing the issue in an historical context, R-CALF's members[4] do not suffer any hardship from re-opening the border to trade. They are placed in the same position relative to Canadian cattlemen that they had been for decades, until May 20, 2003.

The "hardship" to R-CALF is nothing more than that its members will no longer continue to enjoy the profiteering from which they have benefited ever since the Secretary closed the border on May 20, 2003. The dictionary defines a "profiteer" as "one who makes what is considered an unreasonable profit esp. on the sale of essential goods during times of emergency." Mirriam Webster's Collegiate Dictionary 931 (10th ed. 1993). This definition aptly captures the nature of the economic benefits enjoyed by R-CALF's members as a result of the cut-off of the supply of Canadian cattle. Those benefits are unreasonable because they do not reflect free-market conditions, are not the result of greater economic efficiency, and ultimately cannot be sustained without causing

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[4] R-CALF represents only a segment of the cow-calf producers in the United States, and many cow-calf producers disagree with its approach. For example, the president of the Montana Stockgrowers Association said: "To cast that pall of doubt and create hysteria about the safety of the product, I think, makes a lot of people not only nervous but very upset." *All Things Considered: US cattle industry split between those who want trade reopened with Canada*

structural harm to the livestock industry as a whole. The benefits to R-CALF's members result solely from the artificial cut-off of a portion of the cattle supply upon which the U.S. livestock industry has depended for decades.

For the last 22 months, while R-CALF's members have enjoyed the economic benefits of this artificial supply cut-off, other segments of the industry have experienced continuing economic harm. As a whole, this was a price the livestock industry was willing to pay, *temporarily*, while the USDA evaluated and identified measures necessary to protect against the dissemination of BSE. Now that the USDA has completed that task, it is unfair to ask the industry to continue to bear this economic hardship simply in order to preserve the profiteering benefits of one segment of industry.

D. THE INJUNCTION HARMS U.S. CATTLE FEEDERS

In weighing the relative hardships, the district court appears to have considered only the so-called hardship on R-CALF's members from losing the ability to profiteer which they secured by the May 20, 2003 closing of the border. It overlooked the hardship to the entire domestic livestock industry caused by enjoining implementation of the Final Rule.

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and those who believe Canadian beef still poses the risk of mad cow disease (NPR radio broadcast, Mar. 15, 2005)).

For example, the district court does not discuss the effect of the Final Rule, or the preliminary injunction, on cattle feeders, notwithstanding that feeders are a major segment of the industry. Nevertheless, the district court found that: "There will not be any significant harm to Defendant or to any other party in maintaining the *status quo ante*." District Court Opinion, p. 26 (Mar. 2, 2005). The district court made this finding without considering the relative economic hardship imposed on cattle feeders such as Easterday Ranches.

As discussed below, the district court's finding that a preliminary injunction will not cause significant harm to anyone is clearly erroneous. It represents a fundamental flaw undercutting the district court's analysis. By basing the preliminary injunction on a clearly erroneous factual finding, the district court abused its discretion. *Walczak v. EPL Prolong, Inc.*, 198 F.3d 725, 730 (9th Cir. 1999).

The Animal Health Protection Act was enacted, in part, because Congress found that it was essential to protect "the economic interests of the livestock and related industries of the United States". 7 U.S.C. § 8301(1)(C). However, in the proceedings before the district court, the parties' focus, and that of the court, was only on the economic effect of the Final Rule on the cow-calf segment of the industry as perceived by R-CALF.

The 22-month ban on the importation of Canadian cattle has had disparate economic effects on different segments of the industry. The ban has hit cattle feeders particularly hard. Cattle feeders need a safe, economic supply of cattle. Also, they need access to competitive packing markets. Re-establishing the availability of safe Canadian cattle is important to both needs.

Feeders use a variety of business and financial arrangements in their operations. For example, a feeder might purchase steers or heifers from a cow-calf producer, feed those cattle with measured rations and provide veterinary care until they are finished and ready for slaughter, then place them with a packer. The feeder's profit is the difference between the price it pays the producer and the price it obtains from the packer, minus the cost of rations and veterinary care. A variation on this model involves the feeder partnering with another entity, such as a producer, sharing the net profit and also charging a service fee to the partner.[5]

It should be intuitively obvious that under these business models, the cattle feeder obtains the highest net profit where both its suppliers (cow-calf producers) and its customers (packers) are operating in competitive markets. Where a significant supply source (i.e., Canadian cattle) is taken off the market,

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[5] There are other models. However, these are typical of Easterday Ranches' operations, and are common approaches.

supplies are artificially constrained. This reduces competition among U.S. cow-calf producers, in turn leading to artificially high prices for feeder cattle. In addition, the cut-off in the supply of Canadian cattle can negatively impact the competitive forces within the packing segment of the industry. If that cut-off does not merely result in higher prices, but effectively reduces the actual number of finished cattle available to packing facilities in a particular region, some of the region's packing capacity may not be able to continue operating. Plant closures may result, leading to fewer packers and a less competitive industry among the feeder's customers. As discussed below, this is a particular concern in the Pacific Northwest.

Finally, the preliminary injunction has had a particularly acute adverse effect on Easterday Ranches, illustrating the hardship caused to cattle feeders. In December 2004, when the Secretary announced that the border would open to the importation of Canadian cattle on March 7, 2005, Easterday Ranches purchased 3,250 steers and 1,117 heifers in Alberta and Saskatchewan to place in its feedlot. At that time, Easterday Ranches placed a future slaughter contract with a Northwest packing plant, which it intended to meet with these cattle. These were reasonable business moves, in light of the comprehensive studies and thorough administrative process that had led to the USDA's action. When the district court issued the preliminary injunction in this matter,

Easterday Ranches sold 3,100 steers at a lower price than it would have obtained in the U.S., and placed the remaining steers and the heifers on feed in Alberta. Regardless of whether the border remains closed, Easterday Ranches remains obligated under the future slaughter contract. Furthermore, the steers and heifers now in Canada soon will be finished. They will lose value quickly if not slaughtered. If Easterday Ranches places them with a Canadian packer, it will receive significantly less revenue than it would in the United States. All told, Easterday Ranches estimates that the preliminary injunction, if not lifted, will cost it approximately $739,070 in lost revenue from this transaction alone. As discussed below, this is but one illustration of the immediate, continuing and significant costs of the supply cut-off to the cattle industry.

E. THE INJUNCTION HARMS THE CATTLE INDUSTRY IN THE PACIFIC NORTHWEST

The district court did not consider the relative economic hardship on different regions of the United States. The import ban has disparate economic effects on different geographic regions of the United States. In particular, the ban causes hardship in the Pacific Northwest. 70 Fed. Reg. 460, at 525.

A recent study prepared by Ted Shroeder, Ph.D. and John Leatherman, Ph.D., agricultural economists at Kansas State University, examines the economic impact of the border closing. Dr. Shroeder and Dr. Leatherman state:

> Prior to the border closure, the US was importing more than one million head of slaughter cattle annually from Canada for slaughtering and processing. Although this represents only about 3% of total US annual cattle slaughter of about 35 million head, regionally the impact has been substantially larger, especially for beef packing plants located near the Canadian border. For example, in 2002, Canadian cattle imports were 30% of all cattle slaughtered in Utah and represented more than 10% of cattle slaughtered in each Washington, Minnesota, Michigan, and New Jersey.

T. Schroeder & J. Leatherman, "Impacts on US Beef Packers, Workers, and the Economy of Restricted Cattle Trade Between Canada and the United States," 1 (Dec. 28, 2004), a copy of which is attached to this amicus brief as Appendix A.

Historically, the cattle industries of the United States and Canada have operated as a single market, with cattle trade flowing freely in both directions across the border. T. Schroeder & J. Leatherman, *supra*, at 2-3. The Pacific Northwest has been able to take particular advantage of imports of Canadian cattle, as approximately 70 percent of Canada's fed cattle are produced in Alberta. *Id.* at n. 2.

The modern industry in the Pacific Northwest is based on the availability of Canadian cattle. Prior to the 1970s, the regional beef cattle industry was built around small packing plants. The industry provided beef for the region, but little in the way of exports. Today, there are three major packers in the region, and beef exports are an important part of the economy.

The importance of Canadian fed cattle and feeder cattle to the region is illustrated by the fact that in 2002, the last full year in which the border was open, Canadian cattle accounted for 18.6 percent of all cattle slaughtered at packing plants located in Washington State. T. Schroeder & J. Leatherman, *supra*, at table 1. Furthermore, Dr. Schroeder and Dr. Leatherman estimate that the lost sales value of boxed beef and byproducts produced by packers in Washington State during 2003 and 2004 was $291 million, with a $46 million gross margin loss. *Id.* at table 3. They estimate that the total annual impact of the border closing on the Washington economy is between $15 million and $45 million. *Id.* at table 5.

Today, the region's need for Canadian beef cattle is no less than has been the case historically. Without the Canadian supply, regional packers are not able to maintain necessary throughput volumes. Gregg Doud, chief economist with the National Cattlemen's Beef Association, reports: "Closed trade with Canada could mean losing a packing plant in the Pacific Northwest and that would affect the farm-gate value of cattle in the region." G. Doud, "Special Report: How do Canadian beef imports affect our business?," 49 (May-June 2004), a copy of which is attached to this amicus brief as Appendix B.

Further reductions in capacity will severely – and negatively – impact the value of cattle that feeders sell to packers for slaughter, whether by reduced

prices the remaining packers would be willing to pay for the cattle, or the increased cost of shipping the cattle hundreds of miles to Midwestern markets. G. Doud, *supra*, at 49. Dr. Schroeder and Dr. Leatherman observe:

> Loss of one million head of cattle supply to US packers with annual slaughter of 35 million head sounds manageable, though costly, if the impact was spread evenly across the county. However, clearly the impact is not spread evenly across the country as packers in certain regions rely to a much greater extent on Canadian cattle to keep their plants operating at efficient levels. High transportation costs and animal shrinkage and deterioration preclude shipping live cattle long distances.
>
> T. Schroeder & J. Leatherman, *supra*, at 16.

III. CONCLUSION

On May 20, 2003, in response to the discovery in Alberta, Canada of a cow infected with BSE, the Secretary of Agriculture temporarily closed the border to the importation of Canadian cattle. This action was an appropriate temporary response to the situation, while the USDA carefully and thoroughly evaluated what measures were needed to ensure that BSE would not spread to livestock in the United States.

By the end of 2004, the USDA had completed that evaluation, in a public rulemaking procedure that saw over 3,000 comments submitted, considered and evaluated. Numerous scientific and economic studies were commissioned and/or reviewed. International reference standards were applied. On January 4,

2005, the USDA promulgated a rule that re-opened the border to Canadian cattle under the age of 30 months.

Ultimately, R-CALF will not succeed on the merits of its claim. Its members should not be permitted to eke out another year or so of the artificial profiteering benefits they have enjoyed while the supply of Canadian cattle has been temporarily cut-off. Particularly given the serious, ongoing economic hardship that the supply cut-off inflicts on the domestic cattle industry as a whole, and the long-term structural harm with which it threatens the industry in the Pacific Northwest, the preliminary injunction should be stayed or lifted immediately.

RESPECTFULLY submitted this 21st day of April, 2005.

McELROY LAW FIRM, PLLC

Michael B. Gillett
Attorney for Easterday Ranches, Inc.

CERTIFICATION OF COMPLIANCE PURSUANT TO FED. R. APP. 32(a)(7)(C) AND CIRCUIT RULE 32-1 FOR CASE NUMBER 05-35264

I certify that:

1. Pursuant to Fed. R. App. P. 32(a)(7)(C) and Ninth Circuit Rule 32-1, the attached opening/answering/reply/cross-appeal brief is

☐ Proportionately spaced, has a typeface of 14 points or more and contains _____ words (opening, answering, and the second and third briefs filed in cross-appeals must not exceed 14,000 words; reply briefs must not exceed 7,000 words),

or is

☐ Monospaced, has 10.5 or fewer characters per inch and contains _____ words or _____ lines of text (opening, answering, and the second and third briefs filed in cross-appeals must not exceed 14,000 words or 1,300 lines of text; reply briefs must not exceed 7,000 words or 650 lines of text).

2. The attached brief is **not** subject to the type-volume limitations of Fed. R. App. P. 32(a)(7)(B) because

☐ This brief complies with Fed. R. App. P. 32(a)(1)-(7) and is a principal brief of no more than 30 pages or a reply brief of no more than 15 pages;

☐ This brief complies with a page or size-volume limitation established by separate court order dated _____ and is

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3. *Briefs in Capital Cases*

☐ This brief is being filed in a capital case pursuant to the type-volume limitations set forth at Circuit Rule 32-4 **and is**

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4. *Amicus Briefs*

☒ Pursuant to Fed. R. App. P. 29(d) and 9th Cir. R. 32-1, the attached amicus brief is proportionally spaced, has a typeface of 14 points or more and contains 7000 words or less,

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☐ **Not** subject to the type-volume limitations because it is an amicus brief of no more than 15 pages and complies with Fed. R. App. P. 32(a)(1)(5).

DATED this 21st day of April, 2005.

McELROY LAW FIRM, PLLC

Michael B. Gillett
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CERTIFICATE OF SERVICE

I, MICHAEL B. GILLETT, hereby certify that on the 21st day of April 2005, I have caused a true and accurate copy of the Brief of Amicus Curiae Easterday Ranches, Inc. in Support of Reversal of the Order of the District Court Granting a Preliminary Injunction, to be served by overnight delivery upon:

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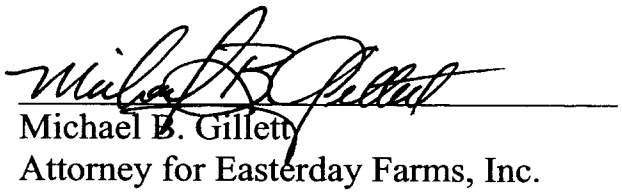

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APPENDIX A

IMPACTS ON US BEEF PACKERS, WORKERS, AND THE ECONOMY OF RESTRICTED CATTLE TRADE BETWEEN CANADA AND THE UNITED STATES

Prepared By:
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Agricultural Economists
Kansas State University

Prepared For:
National Cattlemen's Beef Association
Canadian Cattlemen's Association
American Meat Institute
Canadian Meat Council

December 28, 2004

Executive Summary

- On May 20, 2003 following discovery of a cow infected with Bovine Spongiform Encephalopathy (BSE) in Alberta, Canada, the US imposed border restrictions prohibiting exports of Canadian cattle and beef to the US. Prior to this, the US was importing more than one million head of cattle from Canada for slaughtering and processing. Thus, these restrictions have caused a substantial decline in available supply of slaughter cattle for US packers and excess supply in Canada where production has exceeded slaughter and processing capacity.

- The impacts of these border restrictions on slaughter cattle flow were much greater in particular regions of the US where packing plants relied heavily upon Canadian cattle imports for capacity utilization. Canadian imports represented 30% of Utah, 19% of Washington, and 10% or more of Minnesota, Michigan, and New Jersey cattle slaughter in 2002. Utah, Washington, Minnesota, Nebraska, and Pennsylvania each imported more than 100,000 head of Canadian cattle for slaughter and processing in 2002.

- The estimated value of beef and byproducts sales from Canadian slaughter cattle imported and processed in the US in 2002 was $900 to $956 million[1] resulting in a gross margin (beef and byproduct sales value less cattle purchase cost) of $145-$155 million. Utah, Washington, Minnesota, and Nebraska each had more than $100 million in total sales and $15 million in beef and byproduct sales margin from Canadian slaughter cattle imported in 2002.

- US beef packers lost a projected $1.7 to $1.8 billion in gross sales revenue of boxed beef and byproducts as a result of Canadian slaughter cattle import restrictions from 2003 through 2004. Beef packers located in Utah, Washington, Minnesota, and Nebraska each lost in excess of $200 million in beef and byproduct sales by not having Canadian slaughter cattle imports during this time.

- From May 2003 through 2004 a projected loss of beef and byproduct sales margin for US packers is estimated to be $270-$286 million attributable to the border restrictions. Assuming no substitution of other cattle in particular states, this lost sales margin resulted in $56 million loss in Utah; $46 million in Washington; $39 million in Minnesota; $32 million in Nebraska; $26 million in each Pennsylvania and Wisconsin; and more than $10 million in each Idaho, Michigan, and Colorado.

- To estimate the broader economy-wide impacts of cattle import restrictions, the reduced level of meat packing activity associated with the ban was investigated. Two snapshots were completed, with one being the overall impact to the US, and the second being a case study of Washington State, one of the states most impacted. The US analysis suggests the estimated decrease in production could have affected nearly 5,000 jobs and decreased US income by about $282 million (2003$ US) annually. These estimates represent the level of income and

[1] All dollars ($) US unless otherwise indicated.

employment closely associated with the level of reduction in meat packing activity.

- The more than a million head reduction in available annual slaughter cattle supply has resulted in underutilization of US packing facilities. Beef packer average costs increase dramatically when plants operate below designed slaughter and processing capacity. As such, costs of slaughter and processing have increased considerably for individual plants in the US, especially those located in areas hit hardest by the import ban.

- Canadian cattle prices have been discounted by as much as $20/cwt relative to the US in recent months as Canada experienced over supply of slaughter cattle relative to packer capacity and the US has faced reduced supply. These events are strongly encouraging the development of plans and investment strategies to expand Canadian beef slaughtering and processing capacity. The import restriction has already contributed to three US cattle slaughter plant closures and reduced operating shifts at others. Once the Canadian investments occur, and cattle trade between the two countries resumes, additional excess slaughter and processing capacity will exist. Additional US and/or Canadian slaughterer firms will not be able to survive, causing both long run structural (especially size) and location shifts in cattle slaughter, processing, and possibly cattle production. Such adjustments will come at substantial economic costs.

Introduction

The United States (US) and Canadian cattle and beef industries were highly integrated prior to closure of the border to live animal trade into the US following the May 20, 2003 discovery of a cow in Canada infected with Bovine Spongiform Encephalopathy (BSE). Harmonized cattle and beef trade between US and Canada provided substantial economic benefits to both countries prior to this event. In particular, the most pronounced impact of closing the US to Canadian cattle imports was the adverse impact on selected US beef packers and Canadian cattle producers.[2] Prior to the border closure, the US was importing more than one million head of slaughter cattle annually from Canada for slaughtering and processing. Although this represents only about 3% of total US annual cattle slaughter of about 35 million head, regionally the impact has been substantially larger, especially for beef packing plants located near the Canadian border. For example, in 2002, Canadian cattle imports were 30% of all cattle slaughtered in Utah and represented more than 10% of cattle slaughtered in each of four other states – Washington, Minnesota, Michigan, and New Jersey.[3] The economic impacts of restricted cattle flow from Canada to the US are important to understand as future trade policy between the two countries is deliberated. Any policy decision made regarding whether to keep US border restrictions in place or lift them will have significant economic impacts on numerous facets of both countries. This report examines in particular the impacts of restricted cattle trade on the US beef packing industry, focusing on economic implications. Policy considerations that may have been related to possible or perceived animal health or food safety concerns related to the import restriction are not addressed in this analysis.

Objectives

The primary purpose of this report is to present a preliminary assessment of the economic impacts of restricted cattle trade from Canada to the US on the steer and heifer and cow and bull beef packing industry. In particular, we estimate how US and specific state fed cattle and cow slaughter capacity utilization has been impacted by restricted cattle flow between the two countries. Economic costs to beef processors associated with restricted cattle flows are discussed. Case studies of a particular state and the US as a whole are used to estimate local and national economic impacts of restricted cattle flow. Finally, structural and location issues of beef slaughtering and processing are discussed related to recent past and probable future impacts of continued border restrictions on cattle movement between the US and Canada.

Background

The US and Canadian cattle and beef industries operated largely as a single North American industry prior to discovery of an animal infected with BSE in Canada in May 2003. Feeder cattle, slaughter steers and heifers, slaughter cows and bulls, breeding

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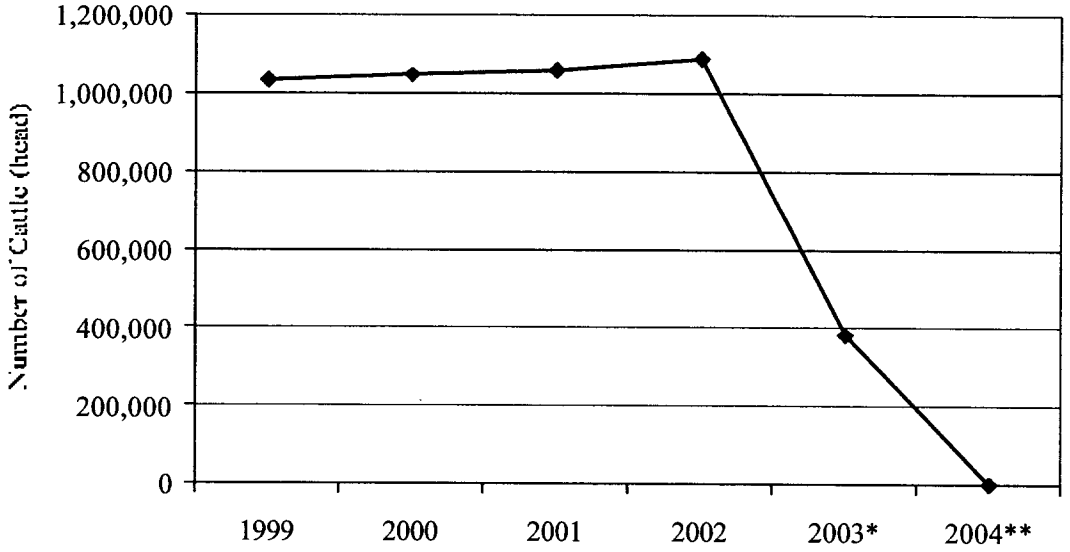
[2] In addition, US producers gained and US consumers lost welfare from the border closure. Estimates of the amount of these US welfare impacts are provided in the US Federal Register, Vol. 68, No. 213, November 4, 2003, pp. 62,386-62,405.

[3] About 70% of Canada's fed cattle are produced in Alberta explaining the large impact on Pacific Northwest US.

animals, and processed beef flowed freely between the two countries in response to economic signals. A substantial amount of this trade flow was cattle movement from Canada to the US. For example, in 2002 (the most recent full year of unrestricted trade in cattle between the two countries), approximately 62,000 dairy cattle, 8,000 veal animals, 583,000 feeder cattle, 17,000 breeding animals, and 1,024,000 slaughter cattle were exported from Canada to the US (data obtained from the Canadian Cattlemen's Association). Canadian slaughter cattle imports into the US were just over a million head in each of the several years prior to the adoption of import restrictions by the US (figure 1). However, on May 20, 2003 when a single cow in Canada was discovered to be infected with BSE, export of all ruminants and ruminant products from Canada to the US was suspended.

Figure 1. Annual US Imports of Canadian Slaughter Cattle, 1999- September 2004



* Import restrictions started in May 2003.
**Through September 2004
Source: US Department of Agriculture

Beginning in late August 2003 a restricted set of boneless beef products were once again allowed to be exported from Canada to the US and these products have continued to be imported since that time. In April 2004, USDA issued a notice to importers that the US was adding certain additional beef products to the approved list for import permitting. This announcement prompted a US organization, R-CALF USA, to file a legal challenge that led to a federal judge blocking the new policy and USDA agreeing to revert to the restricted beef product list that was put in place in August 2003. A proposed rule, first published on October 31, 2003, to allow the resumption of trade in certain classes of cattle and additional beef products, is still pending. As of December 28, 2004, live cattle imports from Canada to the US remain restricted with no scheduled date for trade resumption.

Impact of Import Restrictions on US Cattle Slaughtering

In 2002, the last full year of unrestricted cattle trade between US and Canada, Canadian slaughter cattle imports represented about 3% of total US cattle slaughter. However, Canadian slaughter cattle import restrictions had much greater relative impact in particular states. Table 1 presents the number of Canadian slaughter cattle imports by state of destination, slaughter in each of those states, and the percentage of slaughter represented by Canadian imported cattle in 2002. Utah was clearly impacted the most by restricted Canadian slaughter cattle imports as beef packers in Utah imported more than 200,000 head in 2002, representing 30% of the state's total slaughter. Other states where packers were strongly impacted in number of head and/or percentage of slaughter represented by Canadian cattle imports included Washington, Minnesota, Nebraska, Pennsylvania, Wisconsin, Idaho, Michigan, and New Jersey.[4]

To determine the economic importance of Canadian cattle slaughtered in the US, table 2 summarizes live value and estimated market value of boxed beef, hide, and offal by state from Canadian cattle imports for 2002. For the US as a whole, the live value of Canadian imported slaughter cattle was around $755-$801 million (US) in 2002, depending upon whether Agriculture and Agri-Food Canada or USDA data are used. Of additional importance for US processing firms is the value of boxed beef, hide, and offal from slaughtering Canadian cattle and the gross margin of product sales relative to the cost of cattle. The value differential between the purchase price of the cattle and the value of beef, hide, and offal is estimated using data from the Livestock Marketing Information Center. The next section provides a more comprehensive assessment of economic impacts to the US (and Washington State beef packers as a particular case study) associated with lost slaughter resulting from the import ban on Canadian cattle for slaughter. The value presentation here is primarily to provide a relative estimate of individual state impacts associated with the import restriction (which is not done for the more comprehensive economic losses reported later).

For the entire US, the gross sales value of boxed beef and byproduct sales from Canadian imported slaughter cattle was $901-$956 million with the net value (sales value less the live animal price) being around $145-$155 million in 2002 (table 2). Individual states had substantial variability in sales value associated with Canadian cattle slaughter. For example, Utah had $203 million, Washington $161 million, and Nebraska and Minnesota each over $100 million in sales value of boxed beef and byproducts from slaughtering Canadian cattle. Pennsylvania and Wisconsin each had more than $80 million in sales of boxed beef and byproducts from Canadian cattle slaughtered in 2002.

[4] Import numbers of slaughter cattle for the leading importing states in recent years are reported in Appendix A table A2.

Table 1. US Imports of Canadian Slaughter Cattle, Total Cattle Slaughter, and US Imports as a Percentage of Total Cattle Slaughter by State, 2002.

State of Slaughter	US Imports[a] (head)	Total Slaughter[b] (head)	Import Share (% of Total)
Utah	205,931	680,800	30.2
Washington	180,242	970,040	18.6
Minnesota	145,684	1,252,600	11.6
Nebraska	125,703	8,621,400	1.5
Pennsylvania	101,941	1,471,800	6.9
Wisconsin	95,551	1,766,340	5.4
Idaho	52,868	1,051,000	5.0
Michigan	52,028	519,600	10.0
Colorado	33,584	2,594,200	1.3
Illinois	12,663	NA[c]	NA
Iowa	4,073	NA	NA
California	3,762	1,251,200	0.3
New Jersey	3,020	22,600	13.4
Texas	2,046	6,309,600	0.0
South Dakota	1,399	NA	NA
Georgia	1,394	NA	NA
Kansas	1,078	7,362,100	0.0
North Carolina	668	155,440	0.4
Missouri	438	NA	NA
Montana	175	NA	NA
North Dakota	41	NA	NA
Maine	36	NA	NA
New York	28	38,800	0.1
Ohio	25	69,900	0.0
Total from Canadian Data[a]	1,024,378	35,122,000	2.9
Total from USDA Data[b]	1,087,430	35,122,000	3.1

[a] Source: Agriculture and Agri-Food Canada

[b] Source: US Department of Agriculture

[c] NA refers to not available as USDA did not report for confidentiality reasons

Table 2. Estimated Value of US Imports of Canadian Slaughter Cattle and Boxed Beef and Byproduct Sales Value and Sales Value Less Purchase Cost of Canadian Slaughter Cattle by US Slaughter Firms, by State, 2002.

State	Live Value of Imports[a] (US dollars)	Estimated Beef & Byproduct Sales Value of Imports[b] (US dollars)	Estimated Beef & Byproduct Value Less Live Cost[c] (US dollars)
Utah	174,081,618	203,384,176	29,302,558
Washington	135,176,001	160,823,192	25,647,191
Minnesota	82,120,068	102,849,894	20,729,826
Nebraska	98,565,909	116,452,577	17,886,668
Pennsylvania	71,597,141	86,102,641	14,505,500
Wisconsin	66,995,411	80,591,658	13,596,247
Idaho	34,532,851	42,055,602	7,522,751
Michigan	39,761,838	47,165,063	7,403,225
Colorado	28,424,470	33,203,241	4,778,771
Illinois	10,979,184	12,781,041	1,801,857
Iowa	3,616,977	4,196,537	579,560
California	1,995,945	2,531,252	535,307
New Jersey	1,470,838	1,900,563	429,725
Texas	1,681,800	1,972,932	291,132
South Dakota	1,129,556	1,328,624	199,068
Georgia	937,108	1,135,464	198,357
Kansas	678,345	831,737	153,392
North Carolina	448,032	543,084	95,052
Missouri	416,620	478,944	62,324
Montana	136,303	161,204	24,901
North Dakota	13,905	19,739	5,834
Maine	32,679	37,802	5,123
New York	13,820	17,805	3,984
Ohio	28,411	31,968	3,557
Total from Canadian Data	754,834,832	900,596,741	145,761,908
Estimated Total from USDA Data	801,296,047	956,029,819	154,733,772

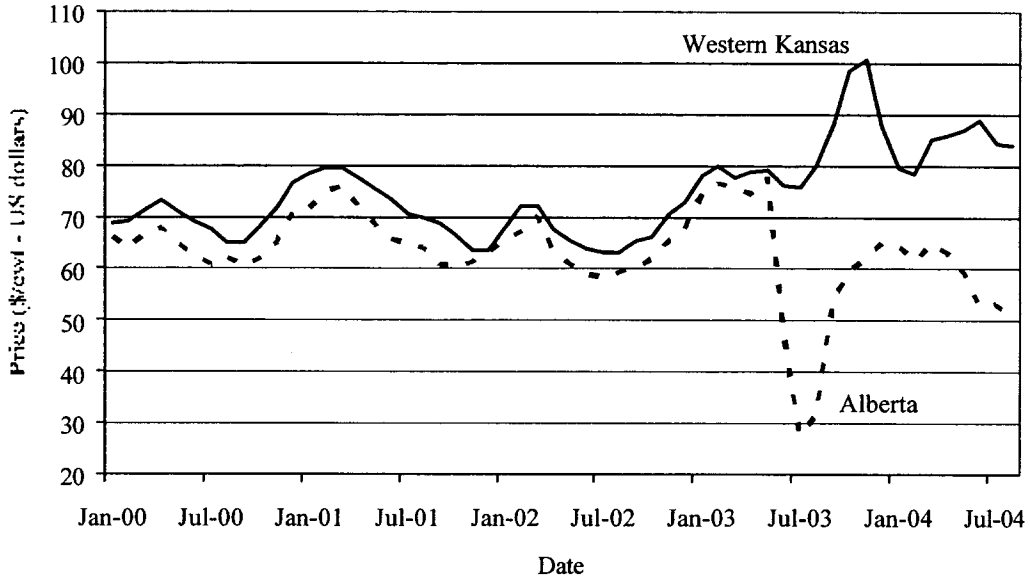
[a]Source: Agriculture and Agri-Food Canada. Converted to US Dollars using 2002 Exchange Rate of 1.57 Canadian to 1 US dollar (Source: Board of Governors of Federal Reserve System).
[b]Boxed beef and byproduct sales value is by definition the sum of the other two columns in this table.
[c]Calculated by multiplying number of head imported from Canada by $142.29 (US dollars). This number is the average 2002 live to cutout spread (boxed beef plus byproduct less cattle purchase cost) estimated by the Livestock Marketing Information Center, Lakewood CO.

Determining the precise amount of economic loss directly associated with restricted live cattle trade from Canada to the US is complex, and allocating these losses to specific states or regions is more so. One of the challenges is estimating how many slaughter cattle would have been imported into the US from Canada were the ban not in place. Several economic factors would certainly influence Canadian slaughter cattle exports to the US. First, it is noteworthy that in the years immediately prior to the adoption of import restrictions more than a million head of slaughter cattle were imported annually into the US from Canada (see figure 1). Because the cattle industry has significant biological lags and in the short run a very inelastic supply response, a good place to start future supply projections would be the most recent trade numbers (i.e., 2002 Canadian imports to the US). Of course other factors are also relevant to estimating these trade flows. For example, cattle production numbers in Canada would be important to consider. However, these have changed for a number of reasons, including Canadian domestic policies trying to slow down cattle supplies, since live cattle trade to the US was halted, so looking at actual current supplies is not particularly useful in this regard.

As a result of the border closure, Canadian slaughter cattle prices have declined significantly relative to US cattle prices since May 2003. For example, figures 2 and 3 illustrate monthly fed steer and cow prices in Western Kansas and in Alberta over the 2000 – August 2004 period. The Canadian dollar increased in value from around 1.57 in 2002 to 1.29 per US dollar in September 2004. All else constant, this would effectively make Canadian cattle prices higher in US dollars than without the increase in value of the Canadian dollar. However, even after adjusting for the increased value of the Canadian dollar, Canadian cattle prices have been considerably lower (often by more than $20/cwt) than US prices. How many cattle the US could import from Canada before slaughter cattle prices across the two countries would realign is beyond the scope of this study. However, it is likely the number would be similar to trade numbers of 2002, if the trade restriction had not been in place, and if the Canadian government had not taken steps to reduce domestic supplies of cattle.

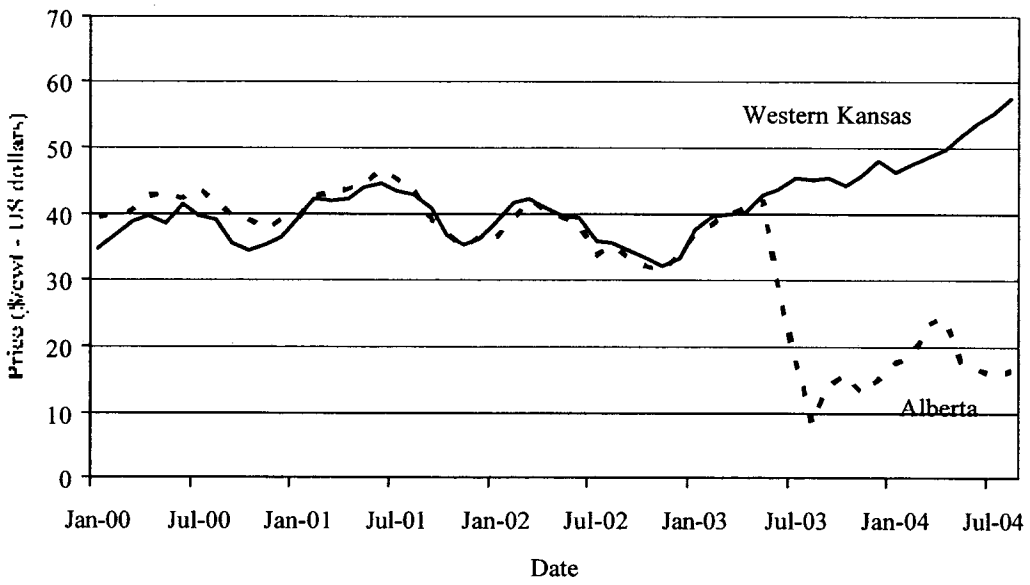
Some regions or states in the US have been affected in different ways by the import restriction on live cattle from Canada. Different impacts likely prevail even across states that were importing similar numbers of head. This is because certain parts of the US have geographic markets that are physically more isolated from other areas and have fewer cattle in their typical market trading region to pull from or competition for cattle in particular areas is especially keen. As such, beef packers located in some states further from the heart of cattle production in the US suffer greater loss associated with the Canadian cattle import ban than those located nearer major market centers. No adjustment for this has been made in the ensuing analysis, but based upon anecdotal evidence from discussions with industry participants as well as a review of relative slaughter share shifts over time, the states of Utah, Washington, Idaho, Nebraska, Pennsylvania, and Wisconsin (and perhaps New Jersey on a percentage basis) appear to have had the largest impacts from the ban on Canadian slaughter cattle imports.

Figure 2. Monthly Alberta Canada and Western Kansas US Fed Steer Prices, 2000-August 2004



Source: Livestock Marketing Information Center, Lakewood, CO

Figure 3. Monthly Alberta Canada Slaughter Cow and Western Kansas US Slaughter Cow Prices, 2000-August 2004



Source: Livestock Marketing Information Center, Lakewood, CO

Finally, another important issue that is not analyzed directly here that would increase the economic impact associated with the ban on Canadian slaughter cattle imports is reduced packing plant capacity utilization. Packing firms incur fixed costs whether they operate at capacity or not; with reduced cattle availability, especially in areas like those mentioned above, failure to operate at capacity creates a major competitive disadvantage for those plants and firms. For example, Swift suspended its second shift at its Nebraska and Colorado plants in large part because of the import restrictions. Such events result in particular packing plants and firms suffering significant economic difficulties because operating costs per pound of meat produced rise rapidly when plants operate below capacity. The result is that eventually some US plants are forced to close down. In addition, numerous other economic spillover effects occur to the rest of the local and national economy when cattle slaughter declines as is discussed in detail in the next section.

With these caveats in mind, it is possible to get a sense for what types of impacts the import restrictions likely have had across states over the 2003 through 2004 period. Table 3 provides an estimate of the lost sales value of boxed beef and byproducts produced by packers, and the resulting margin loss (i.e. the lost sales value less the cost of cattle) for 2003 and 2004, by state. Utah had the greatest estimated loss in sales value of boxed beef and byproducts – about $350 million which translated into about $56 million loss in gross margin. Washington was next with lost sales of $291 million and $46 million in gross margin loss. Nine states had lost sales estimates exceeding $60 million and lost gross margins exceeding $10 million over the 2003-2004 period. Total US boxed beef and byproduct sales loss associated with the border restrictions was estimated to be about $1.7 to $1.8 billion with $270-285 million loss in margin over the 2003-2004 period. An important assumption made in the calculations presented in table 3 is that the same number of cattle would have been imported into the US in 2003 and 2004 by each state as was imported in 2002. The validity of this assumption is not tested, and several economic factors, as discussed above, would affect it. However, since import numbers from 1999-2002 were similar each year, this assumption is at least consistent with recent history. Also, actual prices during 2003 and 2004 were used in this analysis and these would not necessarily be the same prices that would have prevailed if the border restrictions were not in place. It was assumed here that the reduction in slaughter cattle sourced from Canada to each state was not replaced with cattle from other states. This is likely not a fully valid assumption for all states. Based on analysis of slaughter shares over time of the 10 leading cattle importing states, it appears those that lost the most slaughter share were Utah, Washington, Nebraska, Pennsylvania, Wisconsin, Michigan, and Idaho (see appendix A table A3). So loss amounts could be overstated for some states and, if so, would be understated for others. The total US amount should still be accurate, just the incidence on individual states might differ.

Table 3. Estimated Value of Reduced US Imports of Canadian Slaughter Cattle and Lost Beef & Byproduct Value by US Slaughter Firms, by State, May 20, 2003 through 2004.

State	Estimated Live Value of Reduced Imports 2003+2004[a] (US dollars)	Estimated Loss of Beef & Byproduct Sales Value 2003+2004[b] (US dollars)	Estimated Loss of Beef & Byproduct Value less Live Cost 2003+2004[c] (US dollars)
Utah	293,610,572	349,632,112	56,021,540
Washington	244,536,510	290,988,629	46,452,119
Minnesota	202,465,636	241,009,702	38,544,067
Nebraska	172,149,609	204,879,066	32,729,457
Pennsylvania	136,029,982	161,830,660	25,800,678
Wisconsin	135,906,278	161,832,072	25,925,794
Idaho	73,561,766	87,567,462	14,005,696
Michigan	67,805,084	80,636,948	12,831,864
Colorado	55,928,321	66,732,702	10,804,380
Illinois	9,616,806	11,312,083	1,695,278
Iowa	5,548,867	6,603,328	1,054,461
California	6,151,694	7,338,490	1,186,796
New Jersey	3,991,072	4,747,368	756,297
Texas	2,307,986	2,738,274	430,288
South Dakota	2,339,716	2,791,850	452,133
Georgia	2,331,354	2,781,872	450,517
Kansas	1,802,869	2,151,261	348,391
North Carolina	962,230	1,145,988	183,758
Missouri	732,520	874,074	141,554
Montana	292,674	349,231	56,557
North Dakota	39,413	46,617	7,205
Maine	60,207	71,842	11,635
New York	46,828	55,877	9,049
Ohio	36,812	43,855	7,043
Total from Canadian Data	1,418,254,805	1,688,161,363	269,906,557
Estimated Total from USDA Data	1,501,301,911	1,786,940,671	285,638,761

[a]Calculated by multiplying number of head of reduced imports from Canada (see Appendix A table A1) by $833.05/hd for 2003 and $839.37/hd for 2004 (through late October). Live animal values estimates from Livestock Marketing Information Center, Lakewood, CO.

[b]Boxed beef and byproduct sales value is by definition the sum of the other two columns in this table.

[c]Calculated by multiplying number of head of reduced imports from Canada by $172.73/hd for 2003 and $150.45/hd for 2004 (estimated through late October). These are live to cutout spreads (i.e., value added from slaughtering) estimated by the Livestock Marketing Information Center, Lakewood, CO.

Economic Impact of Cattle Import Restrictions

Two different "case studies" are used to estimate economic impacts of US restrictions on Canadian cattle imports. In particular, economic impacts of reductions in meat processing activity in the State of Washington, and in the US as a whole, that were associated with the loss of imported Canadian cattle are presented. Washington was chosen as a "case study" of the impact to a single state substantially impacted by the restrictions to demonstrate regional economic impacts. These estimates show the potential distribution and scale of impacts that might be expected under alternative assumptions of reduced production activity and import activity. These estimates are intended to provide an indication of the direction and probable scale of impacts given relationships known to exist in the economy.

Overall, the information should be considered an approximation of the direction and scale of impact. To accurately project economic, fiscal, or other impacts associated with economic policies or events is a challenging technical endeavor. Thus, simplifying assumptions were required to keep the time and resources needed to conduct such an analysis feasible. The limitations of this analysis are identified in this report and should be acknowledged when interpreting the results.

Economic Analysis of Reduced Meat Processing

Social accounting matrix (SAM) analysis was used to project the economic impacts of reduced meat processing activity in the State of Washington and the US that was consistent with the amount of reduced imports of slaughter cattle from Canada resulting from import restrictions. SAM analysis is a system of accounting for the economic transactions occurring in a regional or national economy at a point in time. A SAM model is a "computerized spreadsheet" of the economy, charting the flow of dollars between business sectors, households, government, and other non-local consumers of locally-produced goods and services. SAM analysis also accounts for transactions between institutions such as households, government, and enterprises. Thus, SAM analysis accounts for taxes and government payments to households and businesses. A SAM creates a "snapshot" of the economy at a point in time, typically one year. The accounting system enables estimates of how spending in one area of the economy "ripples" through the economy to other sectors as businesses buy and sell to one another and generate income for local labor and proprietors. The SAM system used in this research is the IMPLAN (IMpact analysis for PLANning) system developed by the US Forest Service. The system uses secondary data published in government economic reports as the basis for construction of economic accounts.

In SAM analysis, a number of simplifying assumptions are necessary (see Appendix B). Therefore, the impacts identified in this report are best considered general estimates to be used in conjunction with other information for decision-making related to investments or policy.

The analysis used published economic data from 2000. An inflator was used to present the value of the transactions in 2003 dollars (2003$). To the extent economic conditions or the composition of the state or national economy have changed since 2000, the impact may be somewhat different. The analysis also "compresses" the total economic impact

into a single year. In reality, the full effects of economic events take several years to be realized. The further from the year of the analysis, however, the less reliable projections become. The information reported here should be considered a short-term projection, with increasing uncertainty in the medium- to long-term.

Economic impacts of slaughter cattle import restrictions from two sources are estimated: 1) impacts associated with the reduction of production activity in meat processing plants, and 2) impacts associated with reduced spending of income generated by labor for household purchases. The economic impacts are limited to direct, indirect (inter-business transactions), and induced (household spending) economic impacts measured as changes in employment and income (value added) to the state and nation.

Economic Impacts - Concepts and Definitions

Economic impacts are measured in several ways. Here, impacts are reported in terms of the number of jobs affected and the value of the associated income. Economic impacts also arise from several different sources. The "direct" impacts are the value of sales, wages or employment directly in a facility or combined industry sector. The value of total sales is assumed to stimulate additional economic activity.

"Indirect" economic impacts arise from businesses buying and selling to one another in the course of normal economic interaction. The increase/decrease in demand for one company's product stimulates changes in demand for the suppliers of inputs to that firm. In turn, the suppliers must increase/decrease their purchase of inputs. These inter-industry transactions cumulatively make up the indirect economic impact.

"Induced" economic impacts arise from household spending of income earned from labor or profit. Wages and salaries paid directly by a firm and its suppliers are used by workers to purchase household goods and services from a wide range of businesses. These purchases have the effect of spreading the impacts of economic activity broadly throughout the economy.

Two different impacts are reported. The first is value added, or total income. Value added is the broadest measure of income and consists of employee compensation plus proprietary income plus other property income (rents, royalties, corporate profits and dividends) plus indirect business taxes (all taxes paid by businesses except those associated with profits and income).

The second impact measure reported is "jobs." Jobs are the "average" jobs in the economic sector, and do not imply anything about whether the jobs are full- or part-time, or whether they are high- or low-paying jobs. Given assumptions inherent in the analysis used, the estimates of indirect and induced jobs are typically larger than would actually be realized.

Procedures Used to Estimate Economic Impacts

Published import and cattle slaughter data were used to estimate the percentage of beef processing activity affected by the import ban. Table 4 summarizes the cattle slaughter levels and slaughter reductions analyzed. In the Washington analysis, we expect that

affected processors made adjustments to try to replace some of the cattle no longer being sourced from Canada out of domestic supplies from other states. Because we do not know how individual firms reacted to the restricted cattle flow, a range of potential impacts was identified and "low" and "high" estimates were produced. The "high" estimate was the approximate 2002 Canadian slaughter cattle imports to Washington. The "low" estimate was a little less than the smallest annual number of slaughter cattle imported into the state from Canada over the past four years prior to the import restriction (see appendix A table A2). To allow for limitations associated with the techniques used here, the high and low estimates of the Washington impacts were also halved to illustrate impacts if processors were able to make significant substitutions of domestic inputs. Because the US could not effectively substitute Canadian slaughter cattle from other sources (like a single state might be able to), only actual Canadian slaughter cattle imports for 2002 are used as a proxy for how much reduction in imports the restrictions would create in a single year without additional sensitivity analysis.

Table 4. State of Washington and US Cattle Slaughter Values and Slaughter Reductions Used in Impact Scenarios

Cattle Slaughter and Slaughter Reductions	Head of Cattle	Percentage of Slaughter	Dollar Value[a] (million US)
State of Washington			
2000-02 Average Total Washington Cattle Slaughter	978,667[b]	100.0	1,080.216
Estimated Canadian Impact - Low (100%)	120,000	12.3	132.434
Estimated Canadian Impact - Low (50%)	60,000	6.1	66.217
Estimated Canadian Impact - High (100%)	180,000	18.4	198.652
Estimated Canadian Impact - High (50%)	90,000	9.2	99.326
US Total			
2000-02 Average Total U.S. Cattle Slaughter	35,175,000[b]	100.0	24,403.334
2001-02 Average Canadian Live Cattle	1,047,626[b]	3.0	727.219

[a]Source: IMPLAN total industry output, 2000
[b]Source: US Department of Agriculture

In modeling the impact to processors, the proportion of total slaughter from foreign imports was estimated.[5] A confidence interval was established for Washington, and a single scenario was established for US processing. The industry output (total sales or value of production) associated with processing this proportion of beef was determined from the IMPLAN economic accounts. Total US output of meat processing was adjusted (together with all other relevant accounts) to take out processing of pork and lamb that are combined with beef in published US accounts.[6,7]

Economic Impact Analysis Results

The SAM provides estimates of several types of economic impact. Impacts presented were total income and employment (the "cleanest" impacts given analysis limitations). The appropriate interpretation is that these levels of income and employment are closely related to the level of economic activity identified as having been impacted. This is not to suggest that all of the income and jobs were lost. To presume a complete loss of these levels of income and employment would be to say the impacted workers and companies did nothing and remained idle or left the state/nation. Clearly, this was not their response. However, at the least, these were the challenges created, requiring some type of response by the company and/or worker. The ultimate outcome to their welfare cannot be determined by SAM estimation techniques.

Impacts to Washington State

Two impact scenarios were estimated for the low and high bounds of the value of estimated cattle processing reductions. Further, given the uncertainty of company and worker response, and the likelihood that many would have responded to reduced production created, each scenario was replicated at one-half the initial estimate.

As shown in table 5, in the high-impact scenario, the total estimated impact of the import restrictions on income in Washington ranged from a reduction of approximately $22.5 million to $45.5 million. The impacts were generally concentrated in the manufacturing sector where meat processing is classified, but also distributed to trade and service sectors. This illustrates the effects of reduced household spending of labor income and

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[5] Imports of live cattle to the US originate from essentially only two sources: Canada and Mexico. Slaughter cattle from Canada impacting US processors are ready for slaughter and were assumed to go directly to slaughter plants upon import. Cattle from Mexico require additional finishing and were assumed to all go to pasture or feed lots. Therefore, all cattle imports directly impacting American meat processors were assumed from Canada.

[6] In Washington, the vast majority of red meat processing is beef products. Therefore, total meat processing output of Washington State was assumed to be beef. For US estimates, the proportion of the total value of red meat processing (including byproducts) attributed to beef was estimated conservatively to be 58 percent.

[7] To prevent inflation of estimated economic impacts due to the substitution of livestock supplies (and its backward-linked suppliers), the regional purchase coefficients from domestic livestock resources were set to zero for the SAM analysis. This effectively tells the model that there was no substitution of state/national input supplies. Had this step not been taken, SAM analysis would have assumed all of the cattle had come from domestic supplies rather than from foreign import. The resulting analysis would have suggested a dramatic impact to domestic cattle and grain production in addition to the meat packing impacts of interest. More appropriately, any cattle and grain production impacts would accrue to Canadian producers.

serves to distribute the impact widely throughout the state's economy. The story is similar to the low-impact scenario with a range of reduction from approximately $15 million to about $30 million. These represent annual impacts that would occur each year over the duration of import restrictions.

Table 5. Total Income Impact of Reduced Meat Processing Activity In Washington by Economic Sector, 2003 US Dollars

Impacted Sector	Low – 100% (millions $)	Low -50% (millions $)	High - 100% (millions $)	High - 50% (millions $)
Agriculture	-0.055	-0.027	-0.082	-0.041
Mining	-0.007	-0.003	-0.010	-0.005
Construction	-0.445	-0.222	-0.667	-0.334
Manufacturing	-14.252	-7.126	-21.377	-10.289
TCPU[a]	-2.116	-1.058	-3.174	-1.587
Trade	-4.985	-2.493	-7.478	-3.739
FIRE[b]	-3.551	-1.776	-5.327	-2.663
Services	-4.359	-2.179	-6.538	-3.269
Government	-0.347	-0.173	-0.521	-0.260
Total	-30.116	-15.058	-45.475	-22.587

[a] TCPU is transportation, communications and public utilities
[b] FIRE is finance, insurance and real estate

The analysis also included estimates to impacts to state employment (table 6). Again, the number of jobs specified was not necessarily lost. The analysis simply says that these are the number of jobs in each economic sector that are closely tied with the level of economic activity affected. In some cases, the impact may have created slack worker capacity. In others, an actual job may have been lost. In many instances of actual job loss, the worker may have secured alternative employment.

In the high-impact scenario, the number of jobs impacted ranged from a reduction of about 450 to about 900. About half the jobs were in the manufacturing sector, concentrated in meat packing. The other half was distributed throughout the rest of the economy, with most losses in the trade and service sectors. The low-impact scenario ranged from a reduction of about 300 to 600 jobs.

Table 6. Total Employment Impact of Reduced Meat Processing Activity to Washington by Economic Sector

Impacted Sector	Low - 100% (count)	Low -50% (count)	High - 100% (count)	High - 50% (count)
Agriculture	-1.9	-0.9	-2.8	-1.4
Mining	-0.1	0.0	-0.1	-0.1
Construction	-7.9	-4.0	-11.9	-5.9
Manufacturing	-352.9	-176.5	-529.4	-264.7
TCPU[a]	-24.9	-12.5	-37.4	-18.7
Trade	-81.5	-40.8	-122.3	-61.1
FIRE[b]	-25.7	-12.9	-38.6	-19.3
Services	-105.2	-52.7	-157.9	-78.9
Government	-4.2	-2.1	-6.3	-3.2
Total	-604.4	-302.2	-906.6	-453.3

[a] TCPU is transportation, communications and public utilities
[b] FIRE is finance, insurance and real estate

US Economic Impacts

Prior to completing the U.S. economic impact scenario, the IMPLAN model for the United States was adjusted. The first adjustment reduced the total meat packing activity to 58 percent of its original total to remove the estimated value of pork and lamb processing embedded in the US accounts. Once again, the regional purchase coefficients for all livestock sectors were set to zero to prevent domestic substitution.

The single scenario analyzed involved the reduction of $726.8 million in meat packing activity, the estimated value of processing Canadian imported cattle. The results of the analysis are shown in Table 7. The total loss of income to the US economy associated with reduced meat processing activity was estimated to be about $282 million annually. The number of jobs closely allied with this level of economic activity was nearly 5,000.

Table 7. Total Employment Impact of Reduced Meat Processing Activity to the U.S. by Economic Sector, 2003 US Dollars

Impacted Sector	Total Income (millions $)	Employment (count)
Agriculture	-1.07	-39
Mining	-2.82	-14
Construction	-3.97	-79
Manufacturing	-100.90	-2,163
TCPU[a]	-24.65	-266
Trade	-41.34	-753
FIRE[b]	-48.79	-317
Services	-56.34	-1,291
Government	-2.33	-38
Total	-282.21	-4,960

[a] TCPU is transportation, communications and public utilities

[b] FIRE is finance, insurance and real estate

Market Structure and Location Implications

Import restrictions on Canadian slaughter cattle into the US have had substantial short run impacts as demonstrated by the discussion up to this point. However, sustained border restrictions are already having noticeable, and will in the future have even greater, impacts on beef packing structure and location in both the US and Canada. Loss of one million head of cattle supply to US packers with annual slaughter of 35 million head sounds manageable, though costly, if the impact was spread evenly across the country. However, clearly the impact is not spread evenly across the country as packers in certain regions rely to a much greater extent on Canadian cattle to keep their plants operating at efficient levels. High transportation costs and animal shrinkage and deterioration preclude shipping live cattle long distances.

One alternative solution to this problem would be for the US to increase its domestic production by one million head of slaughter cattle annually in these particular regions to offset the Canadian loss. However, this is not probable because global beef price would drop accordingly and production costs would increase making it unprofitable for US producers to engage in what would effectively be global herd expansion (assuming Canada and US can both get international trade opened up again following BSE

discoveries in each country and subsequent loss of international demand for their beef). The US has increased imports of Mexican feeder cattle which were up about 45,000 head in 2003 relative to 2002 and up almost 200,000 head as of October 2004 relative to the same time in 2003. However, the increase in Mexican feeder cattle imports remains considerably smaller than the more than 500,000 head of Canadian feeder cattle imports in 2002 that were also restricted starting in May 2003. So increased Mexican feeder cattle imports does not even offset Canadian feeder cattle imports, let alone the more than a million head of slaughter cattle imports.

What is likely to happen is closing of beef slaughter and processing plants in the US (and reducing all related economic activity) and expansion of beef slaughter and processing in Canada. The US has roughly one million head annual excess cattle slaughter capacity relative to prior to the border restriction. Approximately 60%, or 600,000 head, of Canadian slaughter cattle imports have been steers and heifers and the remaining 40%, or 400,000 head, cows and bulls. This provides a rough indicator of the excess slaughter capacity created in the US by the border restrictions for packers operating in each type of cattle. This suggests closure of either several smaller US steer and heifer plants, or closure of one large plant. Smaller plants tend to be at more risk because huge economies of size in beef packing make smaller plants more vulnerable to supply shifts. The loss of cows and bulls from Canada will likely result in closure of several US cow slaughter plants because they tend to be smaller in scale than steer and heifer plants.

Recent evidence of US beef packing plant financial struggles is apparent through reduced shifts operating at two Swift plants starting in February 2004, closure of the Iowa Quality Beef plant (a producer-owned venture) in Tampa, Iowa in August 2004, closure of Simplot Meat Products plant in Nampa, Idaho in September 2003, and closure of Ferry Brothers in Ferndale, Washington. Other US beef slaughter and processing plant closures are probable in the future.[8] Of course closure of US beef export markets in December 2003 added additional strain to US beef packers so not all the recent beef slaughter firm activity is solely attributable to trade restrictions with Canada.

Expansion of cattle slaughter plants in Canada has been a topic of discussion since the border restrictions were initiated. Current Canadian plants have been operating at high utilization levels with expanded shifts and investment in new and expanded facilities is underway. For example, XL Foods has expanded its Moose Jaw slaughter facility, Levinoff in Quebec is expanding, Gencor in Ontario and Rangeland in British Columbia are planning reopening previously closed plants, and Atlantic beef is opening a plant at Prince Edward Island (this plant was underway prior to May 2003). However, additional physical slaughter capacity investment is probable if US border restrictions are not lifted soon. Future Canadian beef slaughter plants are being encouraged by the September 2004 announcement by the Canadian government of a plan to provide $66.2 million (CN)

[8] Another interesting and perhaps related recent development is the sale of reported 357,000 head of cattle feeding capacity by Swift to Smithfield (Reuters, October 19, 2004). These feedlots are located near Swift plants to help source cattle to their plants especially during particular seasons when other cattle in these regions are not readily available. These feedlots are not located near Smithfield's cattle slaughter plants. What this means for Swift's future is not clear, but at the very least it suggests a major change in the way they do business, and in December 2004, led to Swifts' announced layoff of 800 employees.

in funds to facilitate ruminant slaughter capacity expansion in Canada. Several plans are being formulated for slaughter plant investments in Canada by numerous firms and groups. If such expansion of Canadian slaughter capacity occurs, this will result in over capacity of North American cattle slaughter unless some US plants close. When the border reopens, if the US plants have already closed down, Canadian plants likely will permanently replace the US plants and all economic activity associated with slaughter and processing of the one million head of cattle previously shipped to US will remain in Canada. If the US plants have not closed, either US and/or Canadian plants will ultimately close with only the most efficient surviving until the region gets back to a sustainable efficient slaughter and processing capacity. Whatever the scenario of adjustments and investments and regional shifts in plant locations, the overall adjustment costs in the end will be substantial for both US and Canada.

Appendix A

Table A1. Estimated Reduced US Imports of Canadian Slaughter Cattle by State, May 20, 2003 through 2004.

State	Canadian Cattle Imports through May 2003[a] (head)	Estimated Reduced Imports 2003 Relative to 2002[b] (head)	Estimated Reduced Imports 2004 Relative to 2002[c] (head)
Utah	60,972	144,959	205,931
Washington	68,308	111,934	180,242
Minnesota	49,432	96,252	145,684
Nebraska	45,710	79,993	125,703
Pennsylvania	41,364	60,577	101,941
Wisconsin	28,684	66,867	95,551
Idaho	17,833	35,035	52,868
Michigan	23,057	28,971	52,028
Colorado	286	33,298	33,584
Illinois	13,878	-1,215[d]	12,663
Iowa	1,516	2,557	4,073
California	168	3,594	3,762
New Jersey	1,272	1,748	3,020
Texas	1,337	709	2,046
South Dakota	0	1,399	1,399
Georgia	0	1,394	1,394
Kansas	0	1,078	1,078
North Carolina	186	482	668
Missouri	0	438	438
Montana	0	175	175
North Dakota	35	6	41
Maine	0	36	36
New York	0	28	28
Ohio	6	19	25
Total from Canadian Data	354,044	670,334	1,024,378
Estimated Total USDA Data	380,936	706,494	1,087,430

[a]Source: Agriculture and Agri-Food Canada

[b]Calculated as 2002 minus 2003 slaughter cattle imports by US based on Ag and Agri-Food Canada data

[c]Calculated as 2002 slaughter cattle imports by US based on Ag and Agri-Food Canada data

[d]For Illinois, Canadian cattle imports through May 2003 exceeded the 2002 total. The small negative number was retained to keep calculation procedures consistent.

Table A2. Steer and Heifer and Cow and Bull Slaughter Shares as a Percentage of US Total Cattle Slaughter Represented by Leading Canadian Cattle Import States, 2000 – July 2004[a].

	Steers and Heifers					Cows and Bulls					Total				
State	2000	2001	2002	2003	2004*	2000	2001	2002	2003	2004*	2000	2001	2002	2003	2004*
Utah	2.2	2.3	2.2	2.1	2.0	0.7	0.7	0.7	0.6	0.7	1.9	2.0	1.9	1.8	1.8
Washington	3.1	3.1	3.0	2.8	2.4	1.6	1.4	1.9	1.3	1.1	2.8	2.8	2.8	2.5	2.2
Nebraska	25.7	26.9	27.2	26.9	25.3	10.8	11.8	12.5	10.6	11.0	23.1	24.2	24.5	23.8	22.9
Minnesota	2.1	2.4	2.6	2.7	2.4	6.7	7.2	8.2	8.0	8.2	2.9	3.2	3.6	3.7	3.4
Pennsylvania	3.3	3.3	3.6	3.7	3.3	7.0	6.1	6.9	7.7	7.8	4.0	3.8	4.2	4.5	4.1
Wisconsin	3.2	3.2	3.1	3.5	3.1	15.5	14.5	14.1	15.0	15.2	5.2	5.2	5.0	5.7	5.2
Colorado	8.9	9.1	9.0	8.7	9.3	0.1	0.1	0.1	0.1	0.1	7.4	7.5	7.4	7.1	7.7
Michigan	1.2	1.4	1.5	1.5	1.5	1.6	1.4	1.4	1.4	1.8	1.3	1.4	1.5	1.5	1.5
Idaho	2.7	3.0	2.8	2.6	2.2	3.8	4.0	3.9	3.7	3.7	2.9	3.2	3.0	2.8	2.5
South Dakota	NA[b]	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Total US	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

[a]Source: Calculated using USDA data obtained from the Livestock Marketing Information Center, Lakewood, CO.

* 2004 includes data through July 2004 (excluding April which was not available).

[b]South Dakota slaughter is not reported for confidentiality reasons.

Table A3. Import of Canadian Slaughter Cattle to US by State of Destination for Ten Leading Importing Destinations, 1999 - September 2004.

Import Rank	State	1999	2000	2001	2002	2003*	2004**
		Number of Head					
1	Utah[a]	132,010	146,832	209,288	205,931	60,972	0
2	Washington	181,427	178,924	125,500	180,242	68,308	0
3	Nebraska	120,091	108,641	135,122	125,703	45,710	0
4	Minnesota	59,408	60,147	106,961	145,684	49,432	0
5	Pennsylvania	71,687	72,072	99,125	101,941	41,634	0
6	Wisconsin	44,448	47,222	73,461	95,551	28,684	0
7	Colorado	72,474	32,014	124,175	33,584	286	0
8	Michigan	34,848	46,409	66,873	52,028	23,057	0
9	Idaho	19,756	31,629	25,498	52,868	17,833	0
10	South Dakota	26,099	21,306	31,322	1,399	0	0
	Canada Reported Total All States[a]	781,509	769,877	1,021,299	1,024,378	354,044	0
	USDA Reported Total All States	1,034,633	1,047,066	1,057,398	1,087,430	380,936	0
	Top 10 States' Share of Total (%)	97.5	96.8	97.7	97.1	94.9	
	Canada Reported Total as % of USDA Total (%)	75.5	73.5	96.6	94.2	92.9	

[a]Individual state of destination shipment data are from Agriculture and Agri-Food Canada

* Live animal exports from Canada to the US were halted May 20, 2003

** Through September 2004.

Appendix B

Important Limitations of Using SAM Analysis
The impacts projected here must be considered in light of analysis limitations. Many of the limitations relate to the simplifying assumptions inherent in SAM analysis. Important limiting assumptions are identified.

The primary assumption affecting this analysis is that each firm uses a fixed production technology. All of the production, output, employment, inter-industry trading, and income relationships are assumed to remain constant according to the patterns identified at the time to which the accounts are calibrated. Any increase or decrease in the level of production is therefore assumed to follow a linear process. Changing the level of production creates no economies or diseconomies of scale, and there is no substitution of production inputs. This assumption has the general effect of over-estimating the projected impacts because it fails to recognize the adjustments by firms and individuals in response to changes in prices, shortages of inputs, etc.

A corollary to this assumption is that all of the financial relationships also are fixed and change in a linear fashion. This would include all taxes and other income transfers to households and businesses. This also diminishes the level of confidence in the results.

Given that all economic relationships are assumed to remain constant, the best that the analysis can offer is a "snapshot" view of change. This means that the impact estimates are most reliable for the short-term, for activities that are similar to what already exists in the economy, and for relatively small changes.

APPENDIX B

Special Report: How do Canadian beef imports affect our business?

by Gregg Doud
Chief Economist – NCBA

Summary

As of June 1, 2004 the United States had re-established beef exports with countries that in 2003 accounted for $1.2 billion or 31 percent of the record $3.86 billion in beef and beef variety meat exports. Industry experts agree that the total value of the U.S. beef/beef variety meat export market equates to approximately $15/cwt. or 12 percent of an $85/cwt. fed steer. Therefore, with nearly one-third of trade re-established, roughly $5/cwt. (live weight) of this $15/cwt. has been returned to the marketplace.

By now, the industry has had numerous government and private sector discussions with the other two-thirds of U.S. international customers that account for the remaining $10/cwt. in export value and one message has been consistent throughout this dialogue. These countries are not inclined to import any beef from the United States that the United States is not willing to import from Canada.

Diplomatically, the logic associated with such a request is easy to appreciate. However, the question being asked is whether such a step is in the economic best interest of U.S. beef producers. Is it a fair trade?

Background

Cattle and beef trade between the United States and Canada is a divisive issue within the industry. This report looks at Canadian cattle and beef imports in the correct context, including how these imports relate to overall U.S. beef production.

Since 2003 was atypical from a U.S.-Canada beef trade standpoint, the following provides perspective on this trading relationship using 2002 data. This analysis breaks trade down into a weekly format that might be called a historical "average" week of trade between the two nations (keeping in mind that it could well be 2002 was a high-water mark for U.S. imports of Canadian cattle and beef).

Even though international science-based guidelines do not call for such action, the United States stopped importing Canadian cattle and beef almost immediately after the May 20, 2003 announcement that Canada diagnosed its first domestic case of bovine spongiform encephalopathy (BSE). Typically, two-thirds of this trade was boxed-beef imports and the remaining one-third was live (fed) cattle imports.

The United States resumed imports of boneless, boxed beef from Canadian cattle less than 30 months of age more than three months later in September 2003. Since then, these imports have averaged 59 million pounds per month or about 14 million pounds per week. Economic modeling suggests that this increase in U.S. beef supplies negatively affects U.S. fed-cattle prices by $2.80 to $3.36/cwt.

Estimating the value of Canadian trade

A $2 to $2.40/cwt. range provides the basis for this analysis of Canadian imports under the scenario where the U.S. border is also open to live-cattle trade. The range being used can be sourced to the developers of three different and widely respected private sector price models who were asked to describe the affect of a 10 million pound weekly change in beef supplies on fed cattle prices.

The dollar value of all Canadian imports: Total U.S. fed cattle and beef imports (excluding cows and bulls) from Canada in 2002 (live in carcass equivalent plus beef) averaged 28.7 million pounds per week. Assuming the 'rule of thumb' above is correct, these supplies had, on average, a $5.74 to $6.89/cwt. affect on U.S. fed-cattle prices. This cost estimate includes live-cattle, bone-in beef and boneless/other trade (these components are explained in greater detail below).

This cost estimate does not include U.S. imports of Canadian cows and bulls for immediately slaughter. These imports averaged 6,142 head per week during 2002.

The above estimate also does not include the 464,284 Canadian feeder cattle sent to the United States in 2002. This was a very uncharacteristic circumstance, though, brought on by Canada's extreme drought that year. A better example is the prior five-year average for annual feeder-cattle imports from Canada, which was 139,503 head.

- The live-cattle component: During 2002, the United States imported, on average, 14,535 head of fed cattle from Canada per week. If each animal added 800 lbs. of beef (carcass weight) to the marketplace, this would add 11.6 million pounds of beef to the marketplace, lowering fed-cattle prices by $2.32 to $2.78/cwt.

  Market analysts anticipate that once the U.S. border reopens to live, fed-cattle imports from Canada later in 2004, weekly average imports will run approximately 10,000 head per week. Assuming this will add 8.0 million pounds of additional beef supplies per week, fed-cattle prices would decline between $1.60 and $1.92/cwt.

- "Bone-in" beef: U.S. imports of "bone-in" beef (020120 and 020220) from Canada averaged 3.4 million pounds per week in 2002. Assuming the 'rule of thumb' calculation these supplies would translate into a $0.68 to $0.82/cwt. affect on fed-cattle prices.

- Boneless and other: All other (boneless, processed, veal, etc.) beef from Canada averaged 13.7 million pounds per week during 2002 for a price affect ranging from $2.74 to $3.29/cwt.

U.S. beef exports to Canada: Historically, about 10 percent to 11 percent of U.S. beef exports go to Canada, the United States' fourth largest market. In 2002, the United States exported 4.6 million pounds of beef to Canada per week, which translates an export value of $0.92 to $1.10/cwt.

Net value of trade with Canada: The total U.S. beef imports from Canada cost U.S. producers an average $5.74 to $6.89/cwt. as estimated above. This cost is slightly offset by the estimated $0.92 to $1.10/cwt. U.S. producers get back by exporting to Canada. So, the estimated net affect of a completely open border with Canada (versus the alternative) ranges from about a $4.82 to $5.79/cwt. loss on U.S. fed-cattle prices.

The regional economic impact

In discussing the affects of completely opening the U.S. border to Canadian imports; however, another situation must be considered. Closed trade with Canada could mean losing a packing plant in the Pacific Northwest and that would affect the farm-gate value of cattle in the region.

Pacific Northwest (PNW) weekly fed cattle slaughter capacity is approximately 40,000 head per week spread disproportionately between four major facilities. Considering that about 95 percent of Canadian cattle feeding operations are in Alberta, it is safe to assume that most of the live fed-cattle imported into the United States would be processed at one of the four major plants in the region.

The permanent loss of 14,535 head per week (again using 2002 average imports) in Canadian fed-cattle supplies (approximately 36% of PNW capacity) would undoubtedly force at least one PNW fed-cattle slaughter facility to close. But what might happen if one of these PNW slaughter plants goes out of business?

- Competitive bidding forces for fed cattle in the region would decline;
- A significant quantity of cattle would need to be hauled an additional 500-1000 miles to market at the expense of the feedlot owner (Washington state/Oregon/Idaho fed-cattle to Greeley, Colo. for example) – resulting in lower bids for feeder cattle in the region;
- Bids on fed-cattle prices in the region may drop even lower because without Canadian fed cattle to support the cost structure of these PNW slaughter facilities, it would be exceedingly difficult for them to compete with Nebraska, Kansas and Colorado slaughter plants;
- The region's feedlot capacity would suffer; and
- An equivalent number of feeder cattle must then be sold outside the region again adding transportation costs that would come directly from rancher pockets.

Transportation cost analysis: Using the example of a northern California rancher, the closure of one PNW packing plant might mean that his feeder cattle have to be hauled an additional 800 miles to Greeley, Colo. instead of Twin Falls, Idaho. The additional cost can be estimated at $23.20 per head or $3.87/cwt. So the closure of a PNW slaughter facility could mean a $3 to $4/cwt. reduction in feeder-cattle prices for many ranchers in the region through additional transportation costs alone.

For the U.S. Pacific Northwest cattle industry, the loss of a processing plant and the economics of potentially hauling cattle an additional 800 miles to market must be weighed against the price depressing effects of cattle and beef trade with Canada. In many respects, these two factors offset each other and suggest that some PNW beef producers may be no better off if the border remained closed to Canadian live fed-cattle imports, closing a major beef-packing facility in the region.

Other factors to consider

- U.S. $80/cwt. cattle in February-March 2003 were worth right at C$1.20/cwt. but only C$1.06/cwt. during the same time in 2004 simply as a result of the exchange rate (reduction in the value of the U.S. Dollar).
- Although Canada only has 32.3 million citizens, it was actually the number one overall importer of U.S. agricultural commodities in 2003, barely edging out Japan at just over $9 billion.
- Canada is also the largest supplier of energy to the United States.
- U.S. beef exports are generally valued at $15/cwt. of the fed cattle price or $172.50 per head for an 1150 lb. steer.
  - For a 750 lb. feeder (@$15/cwt. fed) this translates into $166.50 per head or $22.20/cwt. (A $1/cwt. change in fed steer equals a $1.48 change in a 750 lb feeder.)
  - For a 550 lb. feeder calf (@$15/cwt fed) this translates into $155.10 per head or $28.20/cwt. (A $1/cwt change in fed steer equals a $1.88 change in a 550 lb. feeder calf).
  - Lastly, a $1/bu. increase in the corn price should translate into a $7.50/cwt. reduction in the price of a 750 lb. steer in terms of the cost of gain.

The big picture

Reinstating U.S. imports of Canadian live fed cattle could mean an initial 10,000 head per week of imports reducing U.S. fed-cattle prices by an estimated $1.60 to $1.92/cwt. Imports of "bone-in" beef from Canada could

mean another loss estimated at $0.68-$0.82/cwt. But remember these fed-cattle imports will also significantly improve the efficiency (and operating margins) of PNW packing houses which should facilitate better fed-cattle cash bids (basis levels) in the region.

Industry observers are now united in their belief that lower costs of gain in Canada will be a significant mitigating factor against any significant quantity of U.S. feeder-cattle imports. After a long struggle, newly relaxed regulations on anaplasmosis and blue tongue in Canada should also result in a new market for U.S. feeder cattle (in Canada).

In the final analysis, however, these Canadian imports and their subsequent price influences are outweighed many times over by the return of $10/cwt. or two-thirds of our export markets.

Key Points

- Other U.S. export markets will open as we set a post-BSE trading example with Canada; the export markets still closed to U.S. beef products are resulting in fed cattle market losses of $10/cwt.
- The estimated net effect of a completely open border with Canada ranges from $4.82 to $5.79/cwt. with current (boneless, veal) Canadian imports already accounting for $2.80 to $3.36/cwt. of this total.
- However, that loss will be regained, and then some, when the bulk of U.S. beef importers follow our lead to open borders.
- Keeping the Canadian border closed could result in a Pacific Northwest packer closing, which in turn means greatly increased trucking transportation costs for producers in that area.
- Canada was the No. 1 importer of U.S. agricultural products in 2003, and is also the largest supplier of energy to the United States.